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May 17, 2010

Mayor William V. Bell and Members of the Durham City Council:

I am pleased to present the City of Durham Operating and Capital Budget for Fiscal Year 2010-11. The annual operating budget is the most important policy decision elected officials consider on an annual basis. This proposed budget is intended to allocate limited resources to the highest community priorities. The budget preparation process prioritized every program and initiative, scrutinized every expenditure request, and sought opportunities to improve efficiency while ensuring that essential public services continue to meet the needs of the community. As with last year, the budget development process continued to be a challenging experience for everyone, and has been met with incredible commitment and teamwork from the operating departments and budget staff. While the community, state and nation continue to face unprecedented economic times I am confident the proposed budget is fiscally responsible and best meets the needs of Durham citizens.

Durham citizen's budget process participation has been nationally recognized and included five "Coffees with Council," a "Neighborhood Engagement Workshop," and the most recent "Citizens Survey" to assist in developing budget priorities. Budget retreats held in January and February gave City Council members an opportunity to discuss and confirm priorities for the upcoming fiscal year and allowed the administration to brief the City Council on financial projections for the upcoming budget.

As a result of these transparent interactions the major community priorities include:

- *Public Safety*
- *Quality Core Services*
- *Youth Programs and Activities*
- *Improved Infrastructure*
- *Deferred Maintenance*
- *Neighborhood Engagement and Revitalization*
- *Jobs and Neighborhood Economic Development*
- *Timely Capital Project Delivery*

To guide the development of the final recommended budget the City Council adopted budget guidelines. These guidelines once again served as critical framework for developing the budget, and included:

- *A property tax rate increase will be considered for increases in debt service costs for voter-approved general obligation bond debt, employee pay and benefits cost adjustments, new directed programs, enhanced services, and funding to replace non-recurring ARRA funding for core services.*
- *A dedicated street resurfacing fund utilizing a specified portion of the increased tax rate will be considered in the multi-year financial plan for either FY2011 or FY2012 to provide pay-as-you-go funding for debt service payments for voter approved debt.*
- *General Fund projected fund balance will not fall below 12% at the end of FY11. Projected General Fund balance over 12% may be considered for one-time (non-recurring) expenditures.*
- *Proposed water and sewer rate increases will not exceed an average of 8%, consistent with the previously approved rate model.*
- *Proposed stormwater rate increases will not exceed 9.3% to ensure compliance with National Pollution Discharge Elimination System (NPDES) required monitoring, maintenance and watershed plan implementation.*
- *Total debt service funded through General Fund revenue sources will not be projected to exceed 15% of General Fund appropriations.*
- *Funding for neighborhood revitalization will be maintained at the FY2010 level of \$750,000 with an aggregate not to exceed \$1,200,000.*
- *Funding for deferred maintenance will be maintained at the FY2010 level of \$500,000 with an aggregate not to exceed \$1,000,000.*
- *The Non-City Agency (NCA) program will be evaluated to determine an appropriate overall level of funding.*
- *Public transit services including consideration of new routes such as the downtown connector and fare free service options should be evaluated.*
- *Fleet funding will be maintained to replace vehicles with costs not to exceed \$1,000,000 from the General Fund.*
- *Funding for the reinstatement of the new street light program will be at a minimum of \$110,000.*

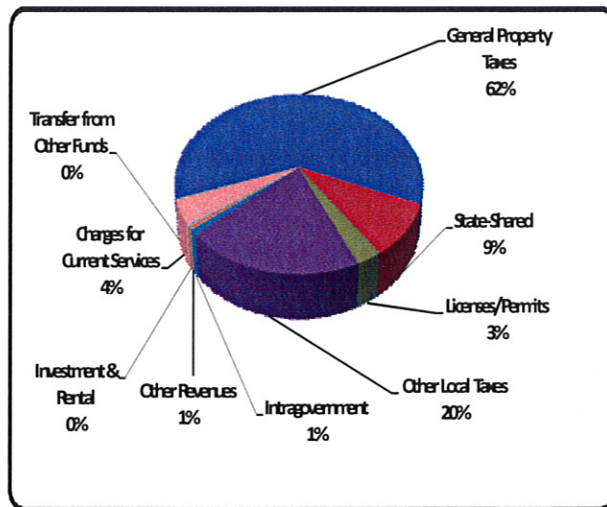
BUDGET OVERVIEW

The proposed total budget for FY2010-11 is \$353.4 million compared to \$345.6 million for FY2009-10, an increase of \$7.7 million (2.2%).

The proposed General Fund budget (which provides funding for core city services) is \$206 million and represents a \$0.9 million (0.4%) budget reduction from the FY2009-10 budget of \$206.9 million.

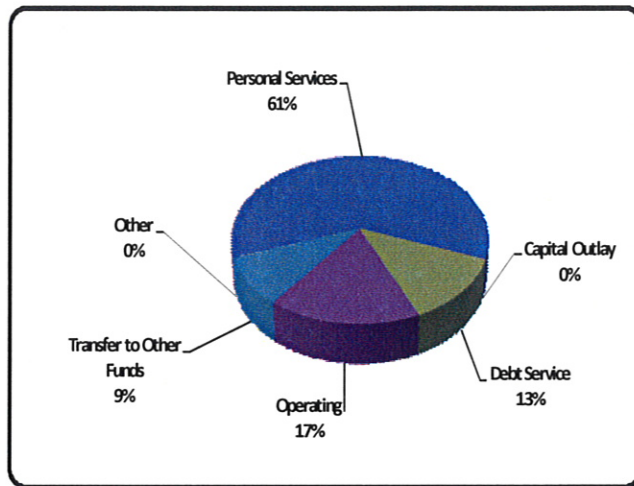
Revenues

- A 6.1% increase in **property tax** revenue. This includes a proposed tax rate increase of 1.19 cents per \$100 to support increased debt service for previously approved capital projects and to replace ARRA (stimulus) funding for public transit.
- A 3.2% increase in **sales tax** revenues.
- An 8.5% decrease in **hotel occupancy tax** due to economic conditions.
- Overall increase in **utility franchise taxes** of 1.6%.
- A 9.3% increase in **Powell Bill** revenues.
- A 66.3% decrease in **beer and wine tax** revenues.
- No transfer from **fund balance** (savings) to balance the budget.
- A 9.0% decrease in **inspection fee** revenues and a 16.9% decrease in planning fee revenues which reflect the impact of current economic conditions on development efforts.
- A 75.0% decrease in **investment earnings** due to current economic conditions.



Expenditures

- **Personnel** expenditures increased by \$3.6 million (3.0%).
- **Operating** expenditures decreased by \$5.1 million (12.8%).
- **Capital** expenditures increased by \$0.04 million (28.5%).
- **Debt service** increased by \$1.4 million (5.7%).
- **Transfers** decreased by \$0.7 million (3.6%).



Property Taxes

The proposed General Fund budget includes a property tax rate of 55.19 cents per \$100 assessed valuation. This rate is 1.19 cents per \$100 (2.2%) assessed valuation increase over the FY2009-10 rate of 54 cents per \$100 assessed valuation. The tax rate to support general operations of 40.76 cents per \$100 will not change in this proposed budget. The tax rate to support voter approved debt service is increasing .49 cent per \$100 to a total of 11.23 cents per \$100 (total GF debt). The tax rate to support transit services is 3.2 cents per \$100 which is an increase of 0.7 cent per \$100 to replace stimulus funding provided through the American Recovery and Reinvestment Act. The average home value in Durham is \$161,700. A tax rate increase of 1.19 cent per \$100 increases the average tax bill by \$19.24.

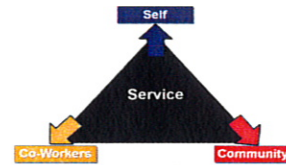
OPERATIONAL HIGHLIGHTS OF PROPOSED FY2010-11 BUDGET

General Administration - The adoption of the City's first overall **strategic plan** will set direction for the future of the city and guide decision-making. The draft plan will be presented to City Council in June 2010 with the implementation phase beginning in September 2010. The plan will be used to develop the FY2011-12 and future budgets and will establish a vision for the level of services to be provided, along with an understanding of the resources necessary to provide them. The development of the **multi-year financial plan** was completed during the fiscal year and is also a crucial component of planning for the future. This financial plan will project the financial impact of achieving the objectives in the strategic plan and the resources needed to fund those objectives.

At the same time staff continues to focus on **streamlining processes**, implementing best practices and planning for the City's future all in an effort to explore opportunities to **make our employees and processes more efficient and effective**. Over the last year, staff studied and successfully implemented the recommendations from a **Contract Process Improvement Study**, resulting in City Council increasing

the City Manager's contracting authority and delegation of authority to other City employees. Contract tracking and approval software, incorporating electronic signatures, has been developed and will be in use by the beginning of the FY2010-11.

Another major initiative started in this fiscal year that will continue to expand in the coming year is the **Culture of Service** initiative. The focus during FY2010-11 will be an organization-wide effort to address each of the three points of service: service to self, service to co-workers and service to community. In addition, every department is being asked to conduct department activities related to each of the three points of service.



Accountability - The City continues to maintain its excellent fiscal status as evidenced in three areas:

- A continuing AAA bond rating by all three rating agencies, the highest measure of financial security and one attained by only 41 of the nation's more than 22,500 cities;
- Unqualified opinions by independent auditors of the City's financial statements and compliance with major federal and state grants.
- A strong Audit Services Department, ensuring compliance with applicable laws, policies and procedures in addition to operating a "fraud, waste and abuse" hotline.

Public Safety Services - Crime continues to be the number one concern of most citizens. Feeling safe and lowering the crime rate were the two most important issues raised by the Council and Durham citizens. Ensuring that the Police Department, Fire Department and Emergency Communications Center (911) are staffed and properly equipped to protect our citizens is a high priority in the proposed FY 2010-11 budget.

- **Overtime funds** are included in the budget to allow the Police Department to continue providing targeted enforcement activities and to address vacancy issues. Through the use of overtime, experienced officers can immediately be deployed to hot spots throughout the City to provide a consistent presence and to address vacancy pressures.
- Funding is included to reinstate the **street lighting program** which includes new street lighting for neighborhoods and thoroughfares.
- The fundable Capital Improvement Plan (CIP) includes funding for a new **Police Headquarters** in FY2015-16. Funding was provided in FY2009-10 for a facility assessment study.
- The fundable CIP also includes funding for the replacement of the **800 MHz radio system** infrastructure for public protection in FY2013-14.
- Funding was provided in FY2009 -10 for the completion of **Fire Station 15** in Northern Durham which will open in the summer of 2010.
- Funding is included for the implementation of a **Next Generation 911 Database** along with updates that will provide for an Automatic Call Distribution system.

- Funding is included for the replacement of 12 **Mobile Data Computers** for the Fire Department.

Housing and Code Enforcement - Vacant and boarded properties continue to plague many neighborhoods in the community causing property value decline and increases in crime. Durham citizens demand and deserve attractive neighborhoods and stable property values. A systematic approach is being established to bring unsafe and deteriorating rental properties into compliance with the housing code, and to eliminate vacant and boarded houses. A key focus has been to educate landlords and tenants of their rights and responsibilities to support the safety of our neighborhoods.

- The Commercial Code will continue to address issues with deteriorating commercial properties. Implementation of this program began in FY2008-09.
- Funding is provided for special needs housing to augment services provided by our Community Development Department.
- Code enforcement will target identified “worst condition” houses, with the goal of remediating all of them by the end of the fiscal year. The City will maintain its focus on compelling property owners to remediate their properties thereby reducing demolition costs.
- Funding is included for the 10-year plan to end homelessness.

Targeting Distressed Neighborhoods – Staff continues to take a holistic approach to improve Durham’s most distressed neighborhoods.

- \$750,000 for **Neighborhood Commercial Revitalization** to enhance the tax base, create jobs for Durham residents and reduce poverty and crime.
- A **Housing and Neighborhood Revitalization Strategy** to support the redevelopment or rehabilitation of blighted residential properties in Northeast Central Durham and Southwest Central Durham is planned to begin implementation during FY 2010-11. The initiation of the Rolling Hills/Southside Redevelopment project is expected to begin during the fiscal year with the first phase of mixed income rental and homeownership development in the project area.
- Neighborhood Improvement Services will continue to **demolish unsafe houses, clean up weedy lots and remove abandoned vehicles** from neighborhoods.
- City staff will undertake an **analysis and prioritization of other housing, neighborhood improvement and community development funding needs** in a housing strategy to be completed later this summer. This will enable the City to support programs such as the **Ten Year Plan to End Homeless, the remediation of vacant and boarded houses, and other neighborhood revitalization initiatives.**

Downtown Revitalization and Parrish Street - The Office of Economic and Workforce Development is moving forward with expanded efforts to engage business interests in the downtown tier, building on the successes of recent years to make the downtown area a destination for Durham citizens and visitors.

- Developed a revised **Economic Development, Financial Assistance and Incentive Policy** for Job Creation, Job Retention and Capital Investment.
- Utilizing \$490,000 in resources from the Downtown Revitalization Fund for **Building Improvement Grants, Merchandise-based Incentive Grants, and Sign Grants** to build economic strength in the expanded Downtown Tier.
- Drawing \$566,000 from the Parrish Street reserve for **Building Improvement Grants, Merchandise-based Incentive Grants**, and to establish a **Common Room** and associated educational programming to further preserve the history, highlight the unique character, and promote the future of Parrish Street.

Youth Programs - Providing year-round positive activities for youth is a continuing priority. It is our goal to engage youth through our internal departments and through support of local non-profits.

- City departments will continue to hire youth for summer jobs through the **Mayor's Summer Youth Works Program** and encourage employees to volunteer as mentors or tutors to Durham children.
- The Durham Fire Department, in partnership with the Parks and Recreation Department and the Office of the State Fire Marshal, will continue its **Junior Fire Marshal Program**.
- The Office of Economic and Workforce Development will maintain the **Youth Employed and Succeeding (YES) Program**.
- Durham Parks and Recreation will continue to offer skills training programs for youth including the **Durham Aquatics School, Safe Sitter Program, Guard Start**, and the **Job Readiness Program**.
- The **Walltown Park Recreation Center** is scheduled to open in August 2010. The Walltown program plan includes events, child care programs (after school, summer camp, intersession and fun days), and programs for athletic and fitness, computer enrichment, Latino outreach, and programs designed for teens.
- The **Youth Alliance Program**, offered by the Parks and Recreation Department, provides opportunities for teens to volunteer in departmental and community service projects and to advise the department regarding teen programming.
- The new **Teen Center at Old Lyon Park** will open in the summer of 2010 and allow for mentoring, workshops, and supervised peer-to-peer engagement for up to 100 youth.
- **Old Chapel Hill Road Park** will open in July, 2010 with approximately 20 acres including 2 athletic fields, a basketball court, a playground, and a greenway trail.

- **Bethesda Park** will open in September, 2010 consisting of approximately 24 acres, with a disc golf course, 2 covered tennis courts and a covered basketball court, walking trails, and a playground.
- **Forest Hills Swimming Pool** will reopen in June, 2010.

Streets and Sidewalks - Using 2005 and 2007 General Obligation Bonds (GO) and other funds the City will continue to resurface many deteriorating streets and pave dirt streets throughout the City. Staff will present an analysis to City Council evaluating future funding options to include a possible bond referendum to further reduce the backlog of unacceptable street conditions.

Protecting the Environment - The City maintains an enhanced focus on sustainability to reduce energy consumption and greenhouse gas emissions.

- This budget continues funding for the Fleet Replacement Program which is one of the best ways to support this goal. All new vehicles are low or ultra-low emission. EPA data show that new diesel engines reduce emissions by 90%, a major reduction in nitrogen oxides and particulate matter. The City received national "Green Fleet" recognition earlier this year for its efforts.
- DATA incorporated 20 new hybrid buses in its fleet during the past year.
- This budget includes funding to continue to support the joint City/County Sustainability Office.
- The City was awarded an Energy Efficiency and Conservation Block Grant in the amount of \$2,173,600 by the US Department of Energy (DOE). The City is utilizing these funds to improve energy efficiency in residential properties as well as city owned facilities.

Solid Waste, Yard Waste and Bulky-Item Programs - Recycling collection is no longer being outsourced to a private contractor, but is being collected by City staff, thus saving the City over \$500,000 annually. During the past fiscal year, Sonoco Recycling was selected as the City's recycling processor. As a result, recycling options have been expanded to include rigid plastics, plastic furniture, yogurt containers and margarine containers (items not usually recycled). This effort has led to increased recycling participation throughout the City. It is estimated that 88% percent of City households place their recycling curbside for collection as compared to the previous 51% participation rate when the service was provided by a private contractor. This participation rate has increased recycling tonnage by 40% or 4,320 additional tons per year. The estimated savings in waste diversion is \$134,000 per year. Also, new technology has been used to create routes that maximized collection efficiency. The routing changes and alternate week recycling collection have lead to further savings on fuel.

The Department obtained a Yard Waste Compost Facility construction permit and the operating permit and the City will no longer pay the additional landfill disposal costs for yard waste material.

Transit Services and Durham Area Transit Authority (DATA) - As previously state the recommended budget includes a tax rate increase of .70 cent per \$100 to maintain current service levels and provide funding for expired Federal stimulus grants. The administration studied the feasibility of providing a complete “fare free” transit system but could not justify such a recommendation due to limited resources and other factors. In 2009 the General Assembly authorized a request for an additional \$5 license tag fee to provide funding to expand services or new routes. Opportunities were explored and will be presented to the City Council for approval to include the initiation of a high frequency route between Duke Hospital (through downtown) and the Golden Belt area of NorthEast Central Durham. An agreement to partner and contract with Triangle Transit Authority (TTA) to operate the DATA system will allow both systems to optimize resources.

Non-Profit Support - The budget proposes to fund 23 non-profit or Non-City Agencies (NCAs) to provide arts, public safety, youth, community development programs and other activities for Durham citizens at a total cost of \$178,821. The City will also continue its management agreements with the Carolina Theatre, Durham Arts Council and St. Joseph’s Historic Foundation for \$596,103, \$605,126 and \$292,000 respectively. This budget also includes funding for the newly negotiated agreement with Lyon Park for \$181,000. This is a \$242,436 net reduction in the amount provided to NCAs and for management agreements over the prior fiscal year.

Unfunded - Limited resources and the loss of Federal Stimulus Funding (ARRA) resulted in funding for the following areas to be excluded from the proposed budget at this time:

- Funding to replace non-recurring stimulus grant funding for a joint City/County Warrant Control Office.
- Funding to replace non-recurring stimulus grant funding for an Assistant District Attorney for Domestic Violence
- Judge and part-time Legal Assistant for Domestic Violence

EMPLOYEE COMPENSATION AND BENEFITS

City employees are at the core of City services. Attracting and retaining a competent, high quality workforce is essential even in an environment of high unemployment. Due to the significant economic downturn, Fiscal Year 2009-10 required the City to freeze pay raises for all employees (except police and fire), reduce contributions to the supplemental 401K plan by 40%, and significantly reduce the longevity bonus plan.

A one-time bonus of \$500 was provided to employees making less than \$40,000 to partially cover increases in health insurance premiums.

Regrettably again this year due to limited financial resources we are not able to fund the “**Pay for Performance**” (P4P) plan or Police and Fire plans. It is critically important to recognize that not providing pay raises for employees cannot be sustained and we must commit to consider employee compensation adjustments as a priority when funding is available. The administration proposes that in January 2011 revenues and expenditures be reviewed to determine if excess funding is available to provide one-time bonuses to all employees during the FY2010-11 fiscal year. This is the most financially prudent way to approach pay increases considering our limited resources and reliance on revenues that are tied to economic conditions. In addition the administration recommends that the City commit that budget guidelines for FY 2011-12 provide that growth in revenues be utilized for employee compensation and benefits before program expansion in other areas. Sending this signal that we value our employees is important to maintain morale and a high level of product service delivery.

Additionally the proposed budget addresses other employee compensation and benefit issues as follows:

- As directed by City Council last year the City’s **Longevity plan** will be completely phased out in FY 2010-11.
- The employee **401K** that provides additional retirement savings for employees will remain at 3% of eligible employees’ salary (reduced from 5% in FY2010). State statute requires local governments to contribute 5% for sworn law enforcement officers.
- In accordance with State Statute, the retirement rate for general employees increased from 4.8% to 6.35% and from 5.27% to 6.82% for law enforcement officers for the **Local Government Employees Retirement System (LGERS)** requiring the general fund to contribute an additional \$1.3 million for retirement contributions.
- **Health insurance** premiums were expected to increase by 29% for FY2010-11. The City solicited a broker to assist in identifying ways to reduce the cost of health insurance while continuing to provide a quality insurance program plan for its employees. Funding to implement the broker’s recommendation to change to a self-insured plan is included in this budget which reduces the increase to 14.54% effective September 2010. As a result of this change and a realignment of the employee contribution rate, 1,931 or 74% of employees will not experience an increase in their health insurance contribution.
- **Dental health** costs will increase by 10.6% increase.

As a result of program prioritization and the resources required and available a total of **31 positions** are proposed to be eliminated or unfunded. This **reduction in force** will allow the City to focus its resources on the highest priorities but are not expected

to negatively impact service delivery or programs. Fifteen of these positions are currently occupied. These affected employees have been notified and the City is making every effort to place these employees in other vacant positions in the organization for which they are qualified. Additionally based on program prioritization and program needs funding for a total of **20 previously frozen or new positions** are included in the proposed budget.

WATER AND SEWER FUNDS

The proposed Water and Sewer Fund budget of \$85 million adequately supports water/sewer operations and increased infrastructure debt service costs.

Revenues

The Department of Water Management presented proposed rates for FY2010-11 to City Council at the May 6th, 2010 work session. The department proposes that both water and sewer volume charges remain flat (no increase) for FY2010-11 and only proposed minor increases for the water and sewer service charges. Rate changes would be adopted effective July 1, 2010, with implementation in the August and September billings.

	FY 10 Rates	FY 11 Rates
Monthly Water Rates		
Service Charge	\$5.11	\$5.35
Volume Charge - Tiered Rates (per 100 cubic foot - ccf)		
Tier 1 (0 - 2 ccf)	\$1.72	\$1.72
Tier 2 (>2 - 5 ccf)	\$2.59	\$2.59
Tier 3 (>5 - 8 ccf)	\$2.84	\$2.84
Tier 4 (>8 - 15 ccf)	\$3.71	\$3.71
Tier 5 (>15 ccf)	\$5.56	\$5.56
Monthly Sewer Rates		
Service Charge	\$5.71	\$6.24
Volume Charge (per ccf)	\$3.28	\$3.28

The moderate increase in service charges and an anticipated increase in water demand as recovery from the drought continues are expected to produce an additional 7.9% or \$6.2 million in revenues. The recovery from the drought will be somewhat dampened by customer responsiveness to the conservation messaging and tiered rate structure.

Expenditures

Water and Sewer Capital Improvement Program projects total \$43 million to improve the infrastructure required to ensure adequate water supply and wastewater treatment. An additional \$5.4 million in rate-funded CIP is budgeted for FY2010-11 to fund rehabilitation and renewal projects.

Operating costs for chemicals, electricity and residuals handling continue to rise as process changes are initiated to meet regulatory requirements. Five positions (four for finance support and customer service) will be added during the year to accommodate demands of moving to monthly billing and continuing the transition to automated meter reading.

CAPITAL IMPROVEMENT PROGRAM

The **FY2011-2016 Capital Improvement Program (CIP)** is presented to the City Council in a companion document to the FY2010-11 annual budget. The capital improvement budget includes \$50 million for new projects and to complete existing projects. Funding is provided through impact fees, water and sewer revenues and revenue bonds, stormwater fees, and program income.

The FY2011-2016 CIP process focuses on prioritizing capital project needs and requirements. The CIP process was developed with the guidance of citizens, the internal CIP Advisory Committee and the Citizen Capital Improvement Panel (CCIP). The staff CIP Advisory Committee and the CCIP have provided recommendations that were included as part of the CIP. These committees were formed seven years ago to prioritize the best combination of new capital improvement projects and advise the City Council of the most critical CIP projects to meet ongoing needs. Additionally, the City Council appointed a nine member citizen committee and the Capital Program Advisory Committee (CPAC), to provide oversight of bond project delivery.

In November 2005, voters overwhelmingly granted approval for the City to issue \$110 million in General Obligation bonds for long needed street, water and sewer, parks and recreation, public facilities and other improvements throughout the City. In November 2007, the voters approved an additional \$20 million in General Obligation Bonds for streets and sidewalks. The primary focus of the FY2011-16 CIP is to complete existing projects already approved and underway. The majority of CIP projects were dedicated to water & sewer and stormwater enterprise projects. No new funding was granted for General Fund capital projects as department and citizen advisors deemed that these were not priorities in these particularly challenging economic times. We are committed to providing complete and ongoing communications to citizens and the City Council about the progress of all projects. To monitor the status of any capital project, citizens can visit our website at (<http://www.durhamnc.gov/cip>).

During the Bond campaign in 2005 and 2007, voters were informed of a possible tax increase to pay debt service on bonds issued for projects. The budget includes a tax increase of 0.49 cents to pay debt service for the 2005 and 2007 bonds. The projected general fund debt to appropriations for FY2010-11 is 13.17%.

This budget includes:

- \$650,000 for the Rolling Hills redevelopment project.
- \$2 million in impact fees for the Carver Street extension project.
- \$1.3 million to address future stormwater issues.
- \$45.7 million in water & sewer improvements.
- The Deferred Maintenance fund is also included in this budget to continue to addressing needs outside of the CIP. The funding level is maintained at \$500,000. All deferred maintenance projects have been prioritized and funding will be applied in priority order and as additional funding is provided.

CONCLUSION

I am confident this budget allocates the limited resources to the highest priorities of the citizens of Durham. This budget will support the community priorities of public safety, quality core services, youth programs and activities, improved infrastructure, deferred maintenance, neighborhood engagement and revitalization, jobs and neighborhood economic development, and timely delivery of capital projects.

I want to take this opportunity to thank the City Council for their support in these challenging times and to thank the city departments for their innovation and creativity put forth in an effort to continue to provide quality programs and services to Durham. Together we will continue to strive to make Durham a better place for all its citizens.

Respectfully Submitted,



Thomas J. Bonfield
City Manager